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ORIGIN SS-20

INFO OCT-01 EUR-25 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00

CIAE-00 PM-07 INR-10 L-03 NEA-10 NSAE-00 PA-04 RSC-01

PRS-01 SPC-03 TRSE-00 SAJ-01 NSC-10 EB-11 COME-00

ACDA-19 OMB-01 H-03 DODE-00 /130 R

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APPROVED BY E:WJCASEY

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FM SECSTATE WASHDC

TO USMISSION NATO IMMEDIATE

AMEMBASSY BONN

INFO ALL NATO CAPITALS

C O N F I D E N T I A L STATE 002402

E. O. 11652: GDS

TAGS: PFOR, NATO, MCAP, EFIN

SUBJECT: BURDENSARING OFFSET AND JACKSON-NUNN AMENDMENT

REF: USNATO 6268, BONN 18460

FOR AMBASSADOR RUMSFELD AND AMBASSADOR HILLENBRAND FOR
UNDER SECRETARY CASEY

1. I AGREE WITH YOU FULLY THAT WE MUST MOVE QUICKLY AND
CLEARLY ON A HIGH LEVEL TO REGAIN NECESSARY MOMENTUM ON
OFFSET BURDENSARING ARRANGEMENTS.

2. WORKING GROUP CHAIRED BY COMMERCE, AS PROVIDED BY
JACKSON-NUNN, WORKING TO DEFINE "DEFICIT". NSC GROUP
WORKING TO DEFINE "PAYMENT" CREDITABLE AGAINST THAT
DEFICIT. HOPE TO HAVE THIS WORK COMPLETED NEXT WEEK.

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3. TENATIVE INDICATIONS ARE THAT, WITH DEDUCTION OF

CERTAIN DEFENSE EXPENDITURES IN EUROPE WHICH ARE NOT NATO RELATED, DEFICIT AS DEFINED UNDER JACKSON-NUNN MAY TOTAL APPROXIMATELY DOLS 2.0 BILLION AND ADDITIONAL TROOP STATIONING COSTS MAY TOTAL DOLS 400 MILLION.

4. BELIEVE JACKSON-NUNN REQUIRES CLEAR AND DEFINITE REQUEST FOR REIMBURSEMENT OF TROOP STATIONING COSTS.

THAT WOULD REQUIRE USE OF FRG BUDGETARY FUNDS TO PROVIDE SERVICES NOW PAID FOR OUT OF U.S. BUDGET. WE BUDGET APPROXIMATELY DOLS 275 MILLION FOR LOCAL SERVICES LIKE LONG HAUL TRANSPORT AND OPERATION OF SUPPLY DEPOTS WHICH FRG COULD PAY FOR. IN EARLIER OFFSET AGREEMENTS, FRG WAS UNWILLING TO ABSORB ANY OF OUR LOCAL SERVICE COSTS. IN THE LAST AGREEMENT, THEY PARTIALLY CROSSED THIS LINE THEY HAD DRAWN FOR THEMSELVES IN AGREEING TO PAY FOR BARRACKS REHABILITATION REQUIRED FOR OUR TROOPS. WHILE RATIONALIZED AS IMPROVING GERMAN PROPERTY, THIS DECISION PLACES THE SAME DRAIN AND STRAIN ON FRG BUDGET AS PROVIDING SERVICES WE BUDGET FOR. IN CURRENT OFFSET NEGOTIATIONS, FRG HAS TAKEN A FURTHER STEP IN BEING WILLING TO PAY SOME TAXES AND LANDING FEES AND, WITH OTHER NATO COUNTRIES, SHOWING WILLINGNESS TO ABSORB SOME OF OUR SHARE OF INFRASTRUCTURE COSTS. IT HAS ALSO OFFERED DOLS 120 MILLION FOR BARRACKS REHABILITATION. THERE IS REAL CONCERN, HOWEVER, THAT BARRACKS REHABILITATION WILL CREATE DIFFICULTIES UNDER JACKSON-NUNN BECAUSE IT IS NOT IN U.S. BUDGET AND IT COULD BE ARGUED THAT PROPER ACCOUNTING WOULD REQUIRE AMOUNT OF THIS RECEIPT TO BE ADDED TO OUR COSTS.

5. JACKSON-NUNN REQUIRES US TO ASK FRG TO ABANDON ITS RETICENCE TO ABSORB LOCAL COSTS AND TELL THEM THAT, ON MOST OPTIMISTIC INTERPRETATION, WE NEED TO HAVE ALL NATO COUNTRIES ABSORB ADDITIONAL DOLS 190 MILLION OF LOCAL COSTS. THIS AMOUNT ON TOP OF BARRACKS REHABILITATION AND TAXES (DOLS 125 MILLION) AND REDUCED INFRASTRUCTURE COSTS (DOLS 85 MILLION) ADDS UP TO DOLS 400 MILLION.

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6. ALSO TO BE CONSIDERED IS WHETHER WE SHOULD PRESS THEM TO SHIFT DOLS 120 MILLION FROM BARRACKS REHABILITATION TO ABSORBING SERVICE COSTS IN ORDER TO ELIMINATE ANY QUESTION ABOUT SATISFYING JACKSON-NUNN. THIS WOULD REQUIRE ELIMINATING BARRACKS REHABILITATION AND REPLACING IT WITH DOLS 120 MILLION OF LOCAL COSTS. WE HAVE SOME INFORMATION THAT FRG, IN ADDITION TO DOLS 125 MILLION ALREADY OFFERED FOR BARRACKS REHABILITATION AND TAXES,

HAS ADDITIONAL FUNDS, AMOUNTING TO DOLS 150 MILLION IN THEIR 1974 BUDGET, WHICH COULD BE APPLIED TO LOCAL COSTS AT A RATE OF DOLS 75 MILLION A YEAR.

7. GOING BEYOND THAT SUM THE GERMANS HAVE OFFERED PROCUREMENT OF DOLS 550 MILLION. WE HAVE EXPECTATION OF DOLS 750 MILLION IN FMS AND COMMERCIAL MILITARY PROCUREMENT FROM OTHER ALLIES, BASED ON ASSESSMENTS IN USNATO 5437 AND 5713. IS THIS LEVEL OF PROCURE-
MENT BY NATO COUNTRIES OTHER THAN GERMANY STILL WITHIN REACH?

8. DOLS 1.3 BILLION IN PROCUREMENT AND DOLS 400 MILLION IN HARD OFFSET REQUEST ADD UP TO DOLS 300 MILLION SHORT OF DOLS 2 BILLION DEFICIT.

9. DIFFERENCE COULD BE COVERED BY REFLOW CREDIT, LOANS, OR ADVANCE DEPOSITS AGAINST FUTURE PROCUREMENT. TWENTY PERCENT REFLOW CREDIT, FOR INSTANCE, WOULD PROVIDE AN ADDITIONAL DOLS 400 MILLION, MORE THAN ENOUGH TO COVER A DOLS 300 MILLION GAP. NSC WORKING GROUP WILL MAKE RECOMMENDATIONS ON GOVERNMENT POSITION AS TO AVAILABILITY OF EACH OF THESE ITEMS FOR OFFSET PURPOSES UNDER JACKSON-NUNN. ARGUMENT HAS BEEN MADE THAT LOANS SHOULD BE ACCEPTABLE BECAUSE IN EARLY AGREEMENTS WITH FRG THEY WERE ACCEPTED. THIS SAME ARGUMENT HOLDS FOR REFLOW CREDIT. IF THE GAP CAN BE COVERED THROUGH REFLOW CREDIT, THIS WOULD BE THE SIMPLER AND PREFERABLE COURSE. IF, HOWEVER, THE GAP RUNS SIGNIFICANTLY HIGHER THAN DOLS 300 MILLION, WE WOULD HAVE TO CONSIDER FALLING BACK TO ACCEPTANCE OF LOANS AS PART OF THE OFFSET PACKAGE.

10. NEGOTIATING SCENARIO THAT WE FORESEE IS THAT AS SOON
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AS WORKING GROUPS HAVE COMPLETED THEIR DEFINITIONAL TASK, A HIGH LEVEL MESSAGE SHOULD GO FORWARD EMPHASIZING THAT MEETING JACKSON-NUNN REQUIREMENTS IS CRUCIAL TO OUR MUTUAL SECURITY INTERESTS. BELIEVE IT SHOULD URGE INCREASE OR REDIRECTION OF NATO DEFENSE BUDGETS, IN AMOUNT WHICH IS LESS THAN 1/2 OF 1 PERCENT, TO ABSORB US LOCAL COSTS OF DOLS 190 MILLION IN EFFORT TO STABILIZE US TROOP COMMITMENT AND RELIEVE ALLIANCE OF CONTINUING THREAT OF RECURRENT MANSFIELD TYPE AMENDMENTS. THIS IS ON THE ASSUMPTION THAT ALLIES WILL FOLLOW THROUGH ON PROCUREMENT SCHEDULE AND INFRASTRUCTURE REVISION.

11. JACKSON-NUNN REQUIRES US TO REQUEST ALLIES TO ABSORB TROOP STATIONING COSTS. THIS MUST BE DONE CLEARLY AND EXPLICITLY. AMOUNT REQUIRED HAS BEEN SCALED DOWN TO

DOLS 190 MILLION ADDITIONAL. THIS WOULD BE VERY STRONG
STEP ON PART OF ALLIES TO ESTABLISH MUTUALITY OF EFFORT
WITH CONGRESS AND AMERICAN PUBLIC. WE WOULD LIKE YOUR
VIEWS ON BEST WAY TO PROPOSE THIS BURDEN BE DIVIDED

BETWEEN FRG AND OTHER ALLIES.

12. TENTATIVE SCENARIO SET OUT HERE IS FOR PURPOSE OF
GETTING YOUR REACTIONS AND RECOMMENDATIONS AS INPUT IN
FORMULATING GOVERNMENT POSITION ON JACKSON-NUNN AND
BARGAINING POSTURE FOR NEXT OFFSET ROUND. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY BUDGET, TROOP DEPLOYMENT, OFFSET PAYMENTS, JACKSON-NUNN AMENDMENT
Control Number: n/a
Copy: SINGLE
Draft Date: 05 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: cunninfx
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE002402
Document Source: CORE
Document Unique ID: 00
Drafter: WJCASEY:CB
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740160/aaaacesd.tel
Line Count: 180
Locator: TEXT ON-LINE
Office: ORIGIN SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: USNATO 6268, BONN 18460
Review Action: RELEASED, APPROVED
Review Authority: cunninfx
Review Comment: n/a
Review Content Flags:
Review Date: 09 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 APR 2002 by kellew0>; APPROVED <26-Aug-2002 by garlanwa>; APPROVED <15-Nov-2002 by cunninfx>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BURDENSARING OFFSET AND JACKSON-NUNN AMENDMENT
TAGS: PFOR, MCAP, EFIN, NATO
To: NATO BONN
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005